

## RETHINKING 2022

### Key issues in preparation of the “ETUC for Sustainable Growth and Social Progress”

#### CHALLENGES

1. The new European Semester will take place during a time of high uncertainty, especially due to global dynamics. The energy shock will require a prompt adjustment of public policies in the EU, and worldwide. In order to counter what is happening in the World, we need a tight-knitted cross-border cooperation among workers.
2. Internal factors are also feeding uncertainty in the EU internal market. The health emergency is not over and may return in the autumn. Pre-existing health and care needs, which were exacerbated by the pandemic crisis, risk to remain unmet. The RRF is starting to produce a rise in public investment, however, relatively high levels of speculation and abuse and corruption in some areas, remain a challenge for quality job creation and the provision of essential services. Inequality is a permanent threat to the effectiveness of policy responses to current challenges.
3. According to the ECB, the current stagflation may further deteriorate into a real economic recession. The risk of returning to the old Stability and Growth Pact (SGP) rules is high, despite an ongoing revision of the economic governance framework. The ECB's new instrument, the Transmission Protection Instrument (TPI), is accessible only for Member States that respect fiscal and macroeconomic boundaries, and all the related Country Specific Recommendations (CSR). This confirms the current fiscal framework, which is in contradiction to the trade union demands to overhaul the rules.
4. It is now clear that the investment effort put in place in 2020 with the NGEU will not be sufficient. Unfortunately, the risk of a credit crunch, exacerbated by a possible return to the old SGP rules, may further delay the call for private investments to complement the increased public investment. At the same time, a substantial disengagement of the EU and private actors from the sustainable finance patterns, will reduce the contribution of private investments to the achievement of EU objectives for sustainability and social resilience. It opens a challenge for the 2023 Semester in terms of quantity and quality of investments.
5. Inflation is at a historical high, with the EU average close to 10% (8.9% Euro Area) having peaks of more than 20% in some member state. The euro area wage growth is estimated at 3% with a widespread loss in real wages. Several analysis show that there is now room for wage increases. Collective bargaining, where it exists, can remedy the situation to a certain extent. However, there is an activation problem (collective agreement renewal can be delayed compared to inflation trends); and wide gaps in collective bargaining coverage - at sector, regional or company level – which deprive too many workers of such an opportunity.
6. Considering also the uncertainty on the governments' spending capacity, there is a high risk that workers will bear the brunt of the war's cost. Energy and food price increases are rapidly eroding the expenditure capacity of the lower income households, quicker than households occupying the middle and upper deciles of income distribution. This is evidenced by the increase in poverty and at risk of poverty rates.
7. Rising energy costs are transferred to consumers and, when not possible, to taxpayers through subsidies that are now granted also in derogation of EU State-aid rules (35 billion in Germany, 7 billion in Poland, etc.). This would be unacceptable if the effort to support businesses are not compensated by higher private investments geared towards job creation, just transition measures and the protection of purchasing power of household income,

especially pensions (at the moment this is not yet the case). To ensure such an outcome taxation on excessive profits should be considered.

8. The successive crises have changed the dynamics of employment, unemployment and labour market participation. Unemployment remains high in Spain, Italy, Greece, but also Sweden and France now have 8% unemployment. The EU average inactivity rates hide differences among countries, driven mainly by sectoral dynamics. Change in employment varies a lot between sectors: employment goes up in sectors with IT and high skills, while still declining in service sectors like tourism, and food services. The latter are sectors with lower wages. Hence, at aggregate level, the shock is not absorbed equally among workers, because the low wage earners are those who are recovering at a slower pace and still experiencing unemployment and a lower than average participation level.
9. Workers are leaving sectors where the workload was very intensive during the pandemic, looking for less stressful jobs or better working conditions. That creates a mismatch between supply and demand of work, as a result of bad working conditions in sectors with labour shortages. Labour shortages are evident in the manufacturing industry but also in essential service sectors (healthcare). In the former, labour shortages can be justified by skill mismatches, while in the latter by poor working conditions .
10. When looking at the social development of the EU and its member states, the ETUC #EU\_SDG8 index shows that a decade has been lost (to which we have to add the 2 years of COVID-19). Most of the EU countries have the same social potential as 12 years ago. The performance of Member States under the EU\_SDG8 index show that the aggregate employment levels, which are now at the “pre-Covid” highs, hide huge disparities and differences in opportunities, and difficulties linked to vulnerable groups in the labour market, but also poverty levels that are not diminishing. Women and young people are still suffering the most from the effects of unstable economic dynamics in the labour market. The employment gap is stuck at around 11% with an alarming peak in Italy and Romania, at about 20%. Adult participation in learning is also lingering around the 10% mark but with a range that moves from 1.8% in Bulgaria and 34.7% in Sweden, with a worrying under performance of countries such as Germany (7.7%) and Italy (9.9%).
11. Inequalities are excessive not only between Member States but also between groups of population, and it demands huge social transfers to restore an acceptable level of social justice. It implies some inefficiencies connected to the different fiscal capacity of Member States, restrictive rules that cap governments’ expenditure for social protection, which sum up with longstanding shortages of our internal market: tax evasion and tax avoidance, extreme fragmentation of the labour market, widespread corruption and informal economy, systematic violation of basic labour protection especially at the workplace.
12. The most recent crises, COVID-19 and the Russian invasion of Ukraine, require an articulated and prompt policy response that the EU and its Member State have actually put in place through a number of actions. The Temporary Crisis Framework and the Winter Preparedness Package have complemented the RePowerEU Plan that was already redirecting objectives and resources of the RRF.
13. It confirms a new capacity of the EU and of its Member State to promptly react to challenging events that threaten our communities, and at the same time it scales up the EU integration process. This has to be welcomed, but it poses new challenges in the way such processes are managed. There are, however, some challenges that have to be addressed. First of all, a greater involvement of social partners would be needed to promote social objectives and to reinforce the democratic legitimization of such a process. Secondly, specific policy instruments, such as the shortened and simplified permitting processes and the new State-aid regime better aligned to strategic autonomy objectives, are not SDG-Proof and financial matters risk to prevail over labour related risks, such as the one correlated to work remuneration and labour transitions. Furthermore, they risk to bring excessive benefits to sector businesses and be

conducive to the accumulation of excessive profits. It would require a more comprehensive policy framework and the EU Semester 2023 may actually do so in a way that subsidies and facilitations for businesses are always compensated by increased investments, job creation and improvement of working conditions.

## **POLICY RESPONSE**

14. Short term policy responses have to fit within foresighted policy frameworks that project into the future of the EU. In response to the economic consequences of the invasion of Ukraine, several billion of euros are spent in: support of enterprises within the Temporary Crisis Framework, and the Winter Preparedness Package, while Member States are adapting their NRRPs to the RePowerEU. These are resources coming from different chapters of the EU budget and from national budgets that should be better framed in a single strategic development framework.
15. The European Semester has to coordinate such measures and frame them into a wider strategic development model of the EU that includes:
  - Sustainability, fiscal and social justice, with the Green Deal at its core;
  - Resilient economies and societies, with the EU Health and Care agenda at its core;
  - Social Agenda, with the Action Plan implementing the EPSR at the forefront;
  - Open strategic autonomy that will boost the digital agenda and the industrial policy, which will provide a new impetus to the EU Integration process.
16. The UN 2030 Agenda and its Sustainable Development Goals (SDGs) are still a suitable compass to filter decisions that do not fulfil all sustainability requirements, and will discharge the policy options causing damage to some aspects of the sustainability agenda, including the social ones. However, it requires a stronger coordination effort and a closer dialogue with social partners.
17. The EU Semester has to clearly define a social policy for the EU, in order to protect workers hit by the multiple crises and keep the EU development model on the upward convergence of living and working conditions. The ETUC proposes, as in the past years, a virtuous triangle that is based on
  - Economic governance rules that ensure social justice and fairness;
  - Investments for job creation, including the activation of new resources from taxation on excessive profits, FTT, capital gain taxes, wealth taxes and the fight against tax avoidance and tax evasion; and
  - Social dialogue with collective bargaining at the core of wage formation.

### **Economic governance rules that ensure social justice and fairness.**

18. The ETUC believes that the economic governance should ensure economic stability, full employment and fairer distribution of income, while protecting the environment and adapting to climate change. This means that additional resources should go towards employment policies, also reallocating unused resources under current programmes such as the RRF. Solutions like the SURE programme showed to be particularly effective in complementing the current EU coordination of social policies in the European Semester. A proposal for the SURE 2.0 is hereby annexed.
19. To date, the Action Plan implementing the European Pillar of Social Rights is the most advanced social programme of the EU. A more comprehensive and granular analysis of wages and household income should allow for a better mix of policies, which include support to wages, pension adequacy and subsidies to families.

20. The European Semester has to put the Headline targets on Employment, training/education and the fight against poverty at the centre of its action. The achievement of these headline targets should be monitored and, when necessary, supported by CSRs. Also strategic National Plans (NRRPs, National Reform Programmes and National Climate and Energy Plans) should contribute to the achievement of the headline targets and report on the progresses achieved. The following link includes national trade union views on how to achieve the Porto's Headline targets in Member States [TUSLO survey \(etuc.org\)](https://www.etuc.org/en/2020/06/tuslo-survey).
21. Collective bargaining has to be supported in order to set wages on an upward dynamic to preserve purchasing power, protect wage earners against poverty and create a motivated workforce that can adapt to changes. In this regard, collective bargaining can improve and adapt working conditions, improve people's welfare overall, ensure adequate pensions, and include work-life balance measures that support the implementation of the Directive on Work Life Balance (that is now entering into force). The European Semester, with a timely and meaningful dialogue with the European Social Partners, should monitor collective bargaining performance and eventually recommend Governments to support collective bargaining, in coherence with the recently adopted Directive on adequate minimum wage levels. In agreement with representative national social partners, subsidies and tax reliefs in favour of workers can promote collective bargaining and improve workers' positions. It includes also an additional effort to eliminate obstacles that impede workers to have access to continuous training also implementing the so-called "Pact for Skills".

### **Investments for job creation**

22. It is crucial that public and private investments remain well above the past EU average and are conducive to quality job creation. The flexibility in the use of EU budgeted resources, also in derogation of state-aids rules, like in the Temporary Crisis Framework, should not result in an excessive cumulation of distributed profits but, on the contrary, foster job creation, additional investments in decarbonisation of the economy and fairer taxation of extra profits and non-sustainable economic activities.
23. The Open Strategic Autonomy framework (OSA) calls for more investment in security. In the ETUC's view, the concept of security has to be defined in a way that covers all dimensions of security: defence, health and income. We believe it is now more important than ever that people feel protected and jobs are preserved. Security for people means:
  - Maintaining peace and protection against external factors, not only as an issue related to defence strategy but also to reinforcing economic, energy and food autonomy (Strategic Autonomy).
  - Reinforcing social protection and healthcare systems and enhancing structural long-term care provisions accessible to all, which are adequate for the needs of people. Especially in event of a pandemic or other health crises, as well as to respond to the requests of the demographic trends.
  - Social and territorial cohesion in the view of reinforcing democratic institutions at national and European level, supporting inclusive and sustainable growth, and boosting upward convergence of living and working conditions.
24. This will require strong investments, adapted economic governance rules and public expenditure linked and proportionate to the social needs, supported by a modern and fairer progressive taxation system, which draws more resources for public services from extra profits of companies, dividends and polluting assets. The ETUC regrets that a substantial disengagement of the EU Commission from the sustainable finance agenda will deprive the EU of a huge capital that the financial market would have aligned to the overall objectives of the EU and that will now most likely be allocated to speculative trading.

## **Social dialogue and social partners involvement in the EU Semester**

25. The ETUC report on the status of implementation of the NRRPs shows that there is a substantial mismatch between the measures adopted in the national plans and trade union expectations. Such mismatch is mostly due to widespread difficulty in identifying social priorities and milestones in the NRRPs. This is a consequence to the lack, or inappropriate, involvement of social partners in the implementation of the RRF.
26. The 2023 Semester should identify drivers of equality, starting from the empowerment of trade unions and reinforcement of collective bargaining. The effectiveness of social partner involvement has to be ensured. The aim of the consultation should be to fix binding priorities as far as the allocation of money is concerned. A common EU framework for the involvement of social partners can be done where, if no meaningful involvement is carried on, the plans (NRRP or NRP) could remain frozen. There is no need for a standard process in each EU country (i.e. respect for national practices) but national practices should ensure some quality criteria of involvement so that social partners involvement is timely, meaningful and directed to decision-makers. Social partners should be equipped with adequate capacities.

### ISSUES SUBMITTED TO TUSLO FOR FURTHER DEBATE

27. *The Rethinking session aims to shed light on two shortcomings of our development model that have been barely addressed in the past semester cycles.*
28. **How to address the divide between rural and urban areas?** *We should evaluate the impact that geographical inequalities has on the viability and consensus of European policies for development. We should find new ways to break the current political trends that see the voting attitude of Europeans polarised with extreme political forces in the rural areas and progressive forces in the urban areas. This debate refers to the SDGs narrative for a social, economic and environment-friendly development model.*
29. **How can we counteract internal factors that threaten our social model?** *It refers to a wider engagement for legality, respect of fundamental rights and fight against undeclared economy, tax evasion, and workers exploitation as an urgent matter. This penalises workers, social protection systems and the overall economy.*
30. **What impact demographic trends will have on just labour transitions?** *Labour market policy and impact on population, fighting poverty and reforming of social protection systems: this session will address the issue of social expenditure to protect people during the transitions. The ETUC proposal for a SURE 2.0 will fit in this area.*
31. *On the reform of the economic governance, the ETUC has elaborated its own proposals. **How to reassure workers that their salaries, their jobs and their present and future income will be protected against the adversities and uncertainties that characterise this historical moment?** In particular, the upcoming semester is the right cycle to show the benefit of solutions that reinforce cross-border solidarity among worker and reinforce the integration process of the EU.*